

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

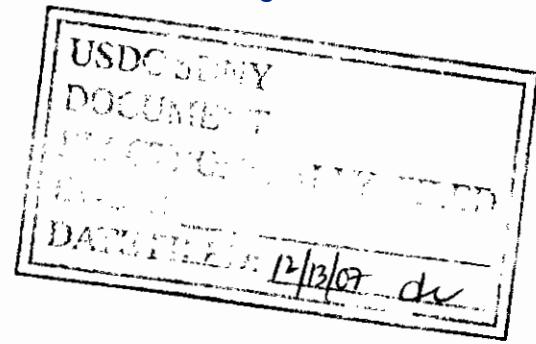
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PAYMENT ALLIANCE INTERNATIONAL, INC., :

: Plaintiff,
v. :

MANUEL FERREIRA, :
:

: Defendant.
-----X

BARBARA S. JONES
UNITED STATES DISTRICT JUDGE



07 Civ. 08685 (BSJ)

Order

Plaintiff, Payment Alliance ("PAI") brings this action to enjoin defendant Manuel Ferreira ("Ferreira"), a former executive employee at PAI, from commencing employment with Cynergy Data, Inc ("Cynergy"). PAI alleges claims for breach of contract, breach of the duty of good faith and fair dealing, misappropriation of trade secrets, unfair competition, unjust enrichment and breach of fiduciary duty. These claims arise out of an Employment Agreement signed between Ferreira and PAI and PAI'S subsequent decision to resign from his employment at PAI and work for Cynergy.

Plaintiff initiated this action by way of an Order to Show Cause on October 9, 2007. The Court signed the Order to Show Cause in substantially the form it was presented, including an *ex parte* temporary restraining order ("TRO") substantively similar to the preliminary injunction now requested. Pursuant

to an agreement between the parties, this TRO has remained in effect pending further decision by this Court. The Court held a conference with the parties on October 19, 2007 during which Ferreira requested additional time to file a supplemental brief with the Court. The Court is now in receipt of Ferreira's supplemental brief in opposition to Plaintiff PAI's Application for a Preliminary Injunction, dated October 26, 2007 as well as PAI's reply letter dated November 6, 2007. Upon consideration by the Court, Plaintiff's application for injunctive relief is GRANTED.

BACKGROUND

PAI is a provider of electronic payment processing services, primarily for point of sale terminals and ATMs. PAI's software and systems are used by retail businesses to process, organize and display information and to arrange for payment to the merchants' accounts.

Ferreira's employment with PAI resulted from PAI's acquisition of his former employer, Electronic Data Resources ("EDR") on September 21, 2005. Ferreira worked at EDR as Senior Vice President of Operations, reporting directly to the Chief Operating Officer. (Compl. at ¶ 17). Prior to and in contemplation of the merger, Ferreira was asked to sign an Executive Employment Agreement (the "Employment Agreement") with EDR. (See Executive Employment Agreement, dated September 20,

2005). In the Agreement, Ferreira contracted to refrain from competing against EDR or any related company and from soliciting its employees and customers following the termination of his employment.¹ Ferreira signed the agreement and initialed each of the sections therein. *Id.* The rights and obligations of the employment agreement contract were transferred to PAI in the merger. (See Compl. at ¶ 24). Thus, following the merger, Ferreira continued working for PAI under the terms and conditions set forth in the employment agreement.

In May, 2007 Ferreira was promoted by PAI to Senior Vice President of all bank card operations, receiving a salary increase and additional shares in PAI's stock plan. (Compl. at ¶ 26; Answer at ¶ 26). PAI alleges that in this role, Ferreira worked closely with technical and information technology personnel who design, test and maintain PAI's electronic payment processing services ("EPP"). (Compl. at ¶¶ 27-28). PAI further alleges that Ferreira was involved in the development of a

¹ Section 7 of the Employment Agreement reads in pertinent part: "Executive acknowledges that during his employment relationship with, or through his involvement as a member or stockholder of, any Related Company, Executive has and will become familiar with trade secrets and other Confidential Information concerning such Related Companies... and that Executive's services have been and will be of special, unique and extraordinary value to the foregoing entities. Therefore, Executive agrees that during the Employment Period and for a period of: (i) two years after the Severance Term if the employment was terminated Without Good Reason or with Cause or (ii) one year thereafter if the employment was terminated with Good Reason or Without Cause or Disability; (the "Non-Compete Period"), he will not directly or indirectly own, manage, control, participate in, consult with, render services for, or in any other manner engage in any business, or as an investor in or lender to any business... which constitutes or is competitive with all or part of business of the Related Companies."

software application for PAI's EPP, known internally at PAI as "COLT." (*Id.* at ¶ 29). Specifically, PAI alleges that "Ferreira's involvement with this project included managing and directing the design of the Application and working closely with computer programmers and others." (*Id.* at ¶ 34). PAI claims that COLT streamlines the merchant application and electronic payment processes and will give PAI a significant advantage over its competitors. (*Id.* at ¶ 30-31).

On October 1, 2007, Ferreira voluntarily resigned his employment with PAI and accepted employment from Cynergy. PAI claims that Ferreira's resignation from PAI and subsequent employment with Cynergy comes at the moment that PAI is nearing completion of the COLT software. (Compl. at ¶ 4). It is undisputed that Cynergy is a direct competitor of PAI. PAI claims that "[p]reliminary and permanent injunctive relief in accordance with Fed. R. Civ. P. 65 is required to stop and avoid the existing, imminent and irreparable harm caused and to be caused by Ferreira's breach of contract and to protect against the disclosure of PAI's trade secrets and other proprietary and confidential information to Cynergy Data." (Compl. at ¶ 5). Ferreira denies that he has possesses any confidential information and argues that PAI has not and cannot make the showing required for injunctive relief. (Def.'s Mem. at 2).

DISCUSSION

At a conference on October 19, 2007, the parties agreed to forgo the opportunity to present witness testimony and have the Court decide the preliminary injunction motion based on the written record before it. In addition to its moving papers and verified complaint, Plaintiff has submitted affidavits from Gregory Sahrmann, the Chief Operating Officer of PAI and Dawn Murray, the architect of the COLT system. Ferreira has submitted his own sworn statements in the form of two affidavits as well as an affidavit from Andres Ordonez, the Chief Information Officer of Cynergy. Also before the Court are copies of the employment agreement at issue and documents relating to the merger of PAI and EDR.

Preliminary Injunction Standard

"Because the purpose of a preliminary injunction is to prevent litigants from taking actions that they are otherwise legally entitled to take in advance of adjudication on the merits, they should be issued cautiously and in accordance with appropriate procedural safeguards." *Kanan, Corbin, Schupak & Aronow, Inc. v. FD Int'l, Ltd.*, 8 Misc.3d 412, 416, 797 N.Y.S.2d 883, 886-87 (N.Y. County Sup.Ct. 2005) (citing *Uniformed Firefighters Assoc. v. New York*, 79 N.Y.2d 236, (1992)); see also *Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 736 (3d Dept. 2003) (stating that a preliminary injunction is a "drastic remedy which is not routinely granted"). Thus, the burden is on the

party seeking preliminary injunctive relief to establish: "(1) irreparable harm, and (2) either (a) a likelihood of success on the merits, or (b) a balance of hardships tipping decidedly toward the party seeking the injunctive relief." *Covino v. Patriss*, 967 F.2d 73, 77 (2d Cir. 1992).

Irreparable Harm

"Perhaps the single most important prerequisite for the issuance of a preliminary injunction is a demonstration that if it were not granted the applicant is likely to suffer irreparable harm before a decision on the merits can be granted." *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 275 (2d Cir. 1985). Accordingly, the moving party must first establish a likelihood of irreparable injury before the other requirements for granting an injunction will be considered. *Rodriguez v. DeBuono*, 175 F.3d 227, 233 (2d Cir. 1999). To make this showing, a Plaintiff must demonstrate that absent a preliminary injunction he will suffer "an injury that is neither remote nor speculative, but actual and imminent," and one that cannot be redressed through a monetary award. *Grand River Enterprise Six Nations, Ltd. v. Pryor*, 481 F.3d 60, 66 (2d Cir. 2007).

In the present case, PAI has persuaded this Court that absent a preliminary injunction, it will suffer irreparable harm because Ferreira will disclose trade secret information in his new employment with a direct competitor. In reaching this

conclusion the Court has weighed the facts presented by the parties and considered Ferreira's legal arguments.

First, Ferreira argues that PAI has not made the required showing of irreparable harm to justify preliminary injunctive relief because PAI has failed to demonstrate any actual misappropriation by Ferreira. While irreparable harm is presumed where a trade secret has been misappropriated, evidence of misappropriation is not a prerequisite to a finding of irreparable harm. Rather, "even where a trade secret has not yet been disclosed, irreparable harm may be found based upon a finding that trade secrets will inevitably be disclosed." *Estee Lauder Cos. v. Batra*, 430 F Supp 2d 158 (S.D.N.Y. 2006). Ferreira argues that courts in New York disfavor reliance on inevitable disclosure as a basis for establishing irreparable harm absent evidence of actual misappropriation. (See Def.'s Supp. Mem at 10). However, he cites to cases which examine the use of inevitable disclosure "as a surrogate for an express restrictive covenant not to compete." See *Marrietta Corp v. Fairhurst*, 301 A.D.2d 735, 736 (N.Y.3d 2003) (stating that reliance on inevitable disclosure to imply a restrictive covenant against competition is "disfavored" absent an actual misappropriation of trade secrets). Thus, while these cases suggest that proof of inevitable disclosure would not provide a basis for injunctive relief independent of an express

restrictive covenant, they are not applicable to this case where the doctrine is used as a basis to support enforcement of an express restrictive covenant. In fact, "a number of recent decisions, principally from federal district courts applying New York law, have used proof of inevitable disclosure as a basis for enforcing restrictive covenants." See e.g. *Estee Lauder Co., Inc. v. Batra*, 430 F Supp.2d 158 (S.D.N.Y. 2006); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996).

Alternatively, Ferreira argues that the doctrine of inevitable disclosure is not applicable to the circumstances of the present case. (Def.'s Mem. at 7). Specifically, Ferreira argues that 1) he is not in possession of trade secret information², 2) since he was not involved at the technical level, he could not duplicate the COLT system or misappropriate trade secret information even if he wanted to, and 3) the information that PAI seeks to protect is of no value to his new employer. (See Affidavit of Manuel Ferreira, dated October 25, 2007 at ¶ 2; see also Def.'s Mem. at 7). Therefore, Ferreira contends that disclosure of this information cannot be inevitable.

² Essentially, Ferreira argues that although he "may possess some general knowledge relating to the Colt system, his lack of technical knowledge is insufficiently specific to qualify as a trade secret." (Def.'s Mem. at 12). However, Ferreira's "lack of technical expertise says nothing about whether or not [he] possesses trade secrets and/or protected confidential information." *Estee Lauder Co. Inc. v. Batra*, 430 F.Supp.2d 158, 175 (2006).

The Court rejects Ferreira's assertion that he is not in possession of trade secret information. In New York, trade secrets are defined as set forth in the Restatement of Torts which states that a trade secret may consist of "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." See *Ashland Management v. Janien*, 82 N.Y.2d 395, 407 (1993) (citing Restatement of Torts, § 757, comment b (1939)). In determining whether information constitutes a trade secret a court should consider several factors, including: "(1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the business] to guard the secrecy of the information; (4) the value of the information to [the business] and [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others." Restatement of Torts § 757, comment b (1939). "The most important consideration remains whether the information was secret." *Lehman v. Dow Jones & Co., Inc.*, 783 F.2d 285, 298 (2d Cir. 1986).

In this case, PAI has spent \$750,000 and more than five years developing COLT. (Compl. at ¶ 33). PAI took measures to protect the secrecy of the software application, giving only approximately six employees password access to COLT. (Declaration of Gregory W. Sahrman, dated October 18, 2007, at ¶ 13). Ferreira was responsible for supervising the development and implementation of PAI's secret EPP system. (*Id.*). The Court credits the statement made by Dawn Murray, the architect of PAI's new EPP service, that she "regularly met with Ferreira to update him on the development and implementation of COLT, including operational matters and design details." (Declaration of Dawn Murray, dated, October 18, 2007). PAI gave Ferreira password access to the software application and Ferreira was present during an extensive review of the Colt system. (Sahrman Decl. at ¶ 15). Despite his contention that he was not involved at the technical or source code level, the Court finds that it is more likely than not that Ferreira is knowledgeable about the development and overall design of PAI's secret software application.

Furthermore, Ferreira possesses detailed knowledge with respect to 1) a point of sale terminal which PAI has preconfigured in a proprietary manner and which provides PAI with a competitive advantage; 2) PAI's activation system, "which monitors and controls the activation process for merchant

accounts; 3) the contact information for PAI's customers and sales representatives; and 4) information about PAI's sales contracts and marketing strategies." (Sahrman Decl. at ¶¶ 24-29). All of the above is non-public information which is kept strictly confidential at PAI. (*Id.*).

Having found that Ferreira is in possession of trade secret information, the Court must next determine whether, Ferreira's employment with Cynergy creates a risk that disclosure of this information is inevitable. Factors which guide courts in making this determination include, but are not limited to: "(1) the extent to which the new employer is a direct competitor of the former employer; (2) whether the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; (3) the extent to which the trade secrets at issue would be valuable to the new employer; and (4) the nature of the industry and its trade secrets." *Spinal Dimensions, Inc. v. Chepenuk*, No. 07 Civ. 4805, 2007 WL 2296503, *6-7 (N.Y. 2007).

Upon consideration of these factors, the Court finds that Ferreira's employment with Cynergy creates the risk that disclosure of PAI's trade secrets is inevitable. Here, it is undisputed that Ferreira left PAI to work for a direct competitor. It is also undisputed that Ferreira's employment at

Cynergy will be in a similar capacity. Thus, even if Ferreira acted with the best of intentions, "he may unintentionally transmit information gained through his association with [PAI] during his day to day contact" with his new employer. *Global Telesystems, Inc v. KPNQwest, N.V.*, 151 F.Supp.2d 478, 482 (S.D.N.Y. 2001). Ferreira argues and a representative at Cynergy attests that Cynergy is not interested in the COLT system. (Ordonez Aff. at ¶¶ 7-9) However, the Court credits Mr. Sahrmann's assertion that this system is a significant improvement in the area of new account processing and is not persuaded by Cynergy's professed lack of interest. (Sahrmann Decl. at ¶ 18). Furthermore, the confidential information in Ferreira's possession about PAI's customers and marketing strategies would undeniably be of value to one of its direct competitors.

Likelihood of Success on the Merits

To obtain the injunctive relief sought, PAI need only demonstrate that it is likely to succeed on the merits with respect to one of its claims. Because the Court finds that the covenant at issue is enforceable it is unnecessary to address the likelihood that PAI will succeed on its other claims.

As an initial matter the parties disagree as to how this Court should treat the covenant not to compete. Plaintiff argues that since the Employment Agreement arises out of the

sale of EDR's business to PAI, the restrictive covenant is governed by the standard for enforceability of non-compete covenants governing the sale of a business, and need not meet the higher standard for enforcement of a non-compete employment covenant.³ Courts generally enforce restrictive covenants ancillary to a sale of business under the premise that "a buyer of a business should be permitted to restrict his seller's freedom of trade so as to prevent the latter from recapturing and utilizing, by competition, the good will of the very business which he transferred for value." *Purchasing Assocs. v. Weitz*, 13 N.Y.2d 267, 246 N.Y.S.2d 600, 196 N.E.2d 245 (1963). By contrast, restrictive covenants in employment contracts are "subject to more exacting scrutiny than are those in contracts for the sales of business... [because] [p]ublic policy favors economic competition and individual liberty and seeks to shield employees from the superior bargaining position of employers." *Mathias v. Jacobs*, 167 F.Supp.2d 606, 611 (S.D.N.Y. 2001).

PAI makes a strong argument that the covenant here was ancillary to a sale of business rather than an employment contract. At the time that PAI acquired EDR, Ferreira was an owner of the company in possession of 15,000 shares of stock. In fact, Ferreira executed a Written Consent of the Stockholders

³ Although restrictive covenants in employment contracts and in contracts for the sale of a business are subject to the same basic test, a stricter standard applies to restrictive covenants in employment contracts. See, e.g., *Purchasing Assocs. v. Weitz*, 13 N.Y.2d 267, 246 N.Y.S.2d 600, 196 N.E.2d 245 (1963).

authorizing the acquisition. (Pl.'s Reply, Ex. A). Ferreira also executed a Contribution Agreement which provided for the conversion of his EDR stock and which acknowledged that he was a "sophisticated investor." (Pl.'s Reply, Ex. B). It is undisputed that the employment agreement at issue here was executed in anticipation of the merger between PAI and EDR. Further, PAI claims to have merged with EDR "primarily to acquire the talent, technical and business expertise, and customer goodwill of EDR's employees, including Ferreira." (*Id.* at ¶ 19). The Court credits this claim as section 6.2(f) of the closing document expressly states that Ferreira's entering into an employment agreement was a necessary pre-condition to the sale. (Compl. Ex.B).

Accordingly, the Court finds that the "sale of business analysis" properly applies to this restrictive covenant. Indeed, the facts of this case are analogous to the circumstances present in *Misys Intern. Banking Systems, Inc. v. Two Four Systems, LLC*, where the court treated a restrictive covenant assumed by an employee with minority ownership interest as ancillary to a sale of a business. 6 Misc.3d 1004(A), 2004 WL 3058144, 2004 N.Y. Misc. LEXIS 2865 (N.Y.Sup.Ct. 2004). The Court, therefore, finds that the restrictive covenant is enforceable under New York law, which favors enforcement of restrictive covenants in the sale of business context. See,

e.g., *Mathias v. Jacobs*, 167 F.Supp.2d 606, 611 (S.D.N.Y. 2001) (stating that “[r]estrictive covenants in this context are routinely enforced because the buyer has in part bargained for the good will of the seller's customers”). Here, the covenant barring Ferreira from directly competing with PAI for two years is certainly a reasonable restriction, protecting PAI's legitimate interest in the goodwill it bargained for when it purchased EDR.

Moreover, the Court finds that the restrictive covenant at issue here is enforceable even under more exacting standard applied to such clauses in employment agreements. It is well established under New York law that restrictive covenants in employment agreements are “enforceable only to the extent that they satisfy the overriding requirement of reasonableness.”

Reed, Roberts Assocs., Inc. v. Strauman, 40 N.Y.2d 303, 386 N.Y.S.2d 677, 353 N.E.2d 590 (1976). A restrictive covenant in an employment contract is reasonable only if it: “(1) is no greater than is required for the protection of the legitimate interest of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public.” See *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 388-89, 712 N.E.2d 1220, 1223, 690 N.Y.S.2d 854, 856-57 (1999). If a covenant fails to meet all three prongs of this reasonableness standard, it is not enforceable. *Id.*

With respect to the first prong, New York courts have held that where, an employee's services are not extraordinary or unique, restrictive covenants are enforceable "only to the extent necessary to prevent the employee's use or disclosure of his former employer's trade secrets, processes or formulae, or his solicitation of, or disclosure of any information concerning the other's customers." *Purchasing Associates, Inc. v. Weitz*, 13 N.Y.2d 267, 272 (1963).

PAI does not contend that Ferreira's services were unique or extraordinary. Thus, to succeed in enforcing the restrictive covenant, PAI must demonstrate that such enforcement is necessary to protect trade secret information. The Court has already found this to be the case.

However, Ferreira also argues that the restrictive covenant is unenforceable because it is unreasonable in scope and duration. (See Def.'s Mem. at 14).⁴ Courts assessing the reasonableness of the scope of a restrictive covenant in an employment contract must consider "the specific facts underlying the agreement and the nature of the employer's confidential information." *Estee Lauder*, 430 F.Supp.2d at 180. The "durational reasonableness is judged by the length of time for

⁴The Court limits the geographic scope of the covenant to the continental United States. See *Seidman*, 93 N.Y.2d at 395. This geographic scope is reasonable as PAI has merchant customers in every state in the continental United States. (Compl. at ¶ 14).

which the employer's confidential information will be competitively valuable." *Id.*

In its complaint, PAI asserted that the COLT system was near completion and that it anticipated that the application would be operational in or about October of 2007.⁵ In addition to launching the system, PAI will need time to market the application and work out any problems that it may have. Additionally, PAI is entitled to establish its presence in the market as the sole proprietor of the COLT system without being hampered by competition from a former employee in possession of its trade secrets. The Court also notes that by signing the employment agreement, Ferreira knowingly and voluntarily accepted the condition that he refrain from competing with PAI for a period of two years post-employment. Thus, based on the record before it, the Court finds that the two year duration of the non-compete clause is reasonable. Based on the anticipated discovery schedule, the parties should be prepared for trial within six months. If at that time a permanent injunction is issued and the Court finds that a shorter duration would adequately protect PAI's legitimate interests, the Court will

⁵ In response to an inquiry from this Court on December 9, 2007, PAI advised that it plans to implement the COLT system in phases the first of which is now firmly scheduled for December 17, 2007. Ferreira has objected to this inquiry, arguing that the Court should base its decision on the written record previously before it. The Court agrees and in no way relies on this information in making its assessment.

modify the terms of the covenant accordingly.⁶ See *Seidman*, 93 N.Y.2d at 395.

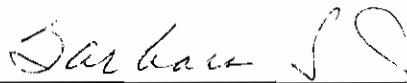
Ferreira also argues that the covenant is unreasonable because it fails to provide for payment of his salary during the two year non-compete period. (See Def.'s Supp. Mem. at 13-14). While courts will consider whether "an employee receives continued consideration for his loyalty and goodwill," this factor is not dispositive. *Bradford v. New York Times Co.*, 501 F.2d 51, 58 (2d Cir. 1974). Rather, it is only one consideration in the determination of whether the covenant as a whole is reasonable. Here, it is undisputed that Ferreira was compensated in advance by PAI in exchange for his assuming the terms of the employment agreement. Further, this is not a case where the enforcement of the non-compete clause precludes the defendant from all gainful employment within an industry. Ferreira is barred only from working for a direct competitor of PAI. He is not barred from all operational roles in the credit industry.

Thus, for the reasons stated above, the Court finds that the restrictive covenant is reasonable and that PAI has established that it is likely to succeed on the merits of its breach of contract claim.

⁶ The Court finds no evidence of bad faith or coercion on the part of PAI which would prevent the partial enforcement of the non-compete clause. See *Seidman*, 93 N.Y.2d at 394.

For the aforementioned reasons, PAI's request for a preliminary injunction is GRANTED. Accordingly, Defendant Manuel Ferreira is preliminarily enjoined from 1) working at, or providing services for, Cynergy Data, Inc., or any other direct competitor of PAI within the continental United States for a period of two years commencing on October 1, 2007, the date Ferreira resigned his employment with PAI; and 2) from using, disclosing, or transmitting for any purpose any records, documents, or information containing any confidential or proprietary information of PAI, including information concerning Project COLT. In accordance with Rule 65(c) of the Federal Rules of Civil Procedure, PAI is directed to post an undertaking of \$250,000 as security in the form of a bond to cover the possible costs and damages that may be incurred by Ferreira as a result of the granting of this preliminary injunction on or before December 17, 2007. The parties are reminded that this case has been referred to Magistrate Judge Frank Maas for discovery and general pre-trial purposes.

SO ORDERED:



BARBARA S. JONES
UNITED STATES DISTRICT JUDGE

Dated: New York, New York
December 12, 2007